

Chairman Michael G. Oxley
Committee on Financial Services

Speech to the
Council of Federal Home Loan Banks
Washington Conference

May 3, 2005

Thank you so much to John von Seggern, Dave Hehman, and to all of you representing Federal Home Loan Banks from all across the country.

Thank you for coming to Washington, and between the great spring weather we've been having and a pending GSE bill from Richard Baker, I would say that your timing for this conference is perfect!

Some of you may know me from a little bill called Sarbanes-Oxley. I'm the Oxley, in case this has escaped you.

Just a couple of weeks ago, Sarbanes-Oxley was the big answer on Final Jeopardy. Not just some \$200 answer, but Final Jeopardy. This is my first time ever being an answer to a trivia question, and I am certain that Senator Sarbanes is as excited about it as I am.

Again, welcome to Washington, I know that you will have a productive conference, and maybe also some time to get out and see the sights as the weather warms up.

While a lot of people throughout the country may not know what federal home loan banks are, you are an important part of the banking system. The secondary market that is a critical component for the smooth operation of our financial systems. People may not know it, but bankers need bankers, and that's where the Federal Home Loan Bank system comes in.

In addition to providing liquidity, Home Loan Banks are charged with the important missions of helping to finance affordable housing and community development. These missions, in addition to supporting agricultural and small business lending, are important components that help smaller communities—like those I represent in Ohio—continue to thrive.

The Home Loan Banks' affordable housing program has been highly successful at driving funds to low- and moderate-income housing. Some of the members of our Committee are interested to create a similar program for Fannie Mae and Freddie Mac.

Of course, Congress most recently revised the Federal Home Loan Bank System in Gramm-Leach-Bliley, when some membership and corporate governance changes were made and capital standards were improved.

Now, we find ourselves at an important point in the history of the regulation of all the FHLBs, Fannie Mae, and Freddie Mac. The stars are lining up for us to successfully pass a comprehensive legislative package of reform.

After you've been in Congress for a while, after you've seen large pieces of legislation move, you do get a sense that conflicts are being resolved and that it's getting ready for prime time. It can take years and sometimes decades, but I do think that things are coming together for the Baker legislation.

Clearly there is ample reason to recommend that the Congress act. Accounting irregularities, corporate governance failures, and earnings smoothing at both Freddie Mac and Fannie Mae have caused uncertainty in our financial and housing markets. The Federal Home Loan Banks have had problems as well.

All of these are situations that could have, would have, and should have, come to light earlier under the guidance of a stronger regulator.

We have resolved so many of these big picture issues, with the decisions being reflected in the current Baker bill, which I was proud to cosponsor at the time of its introduction.

We have concurred after many meetings and conversations that a strong and independent regulatory agency outside of the appropriations process is what will work best for the future of the GSE system. The regulator will no longer have a split personality, but will have authority for soundness and the housing mission. And that the Home Loan Banks should be brought under this new regulatory agency.

We have concurred that if the regulator is to be effective, he needs powers and independent authority, the same powers as bank regulators. The regulatory agency should and will, under the Baker legislation, have the authority to approve new and programs and activities. To adjust minimum and risk-based capital. To limit the portfolio, not as mandated in the law, but

as the current situation demands. To reduce or even to increase a GSE's assets or liabilities.

As further evidence of the progress that has been made, the issue of receivership has been decided.

Most importantly, I see people across the Capitol in the Senate and downtown at the White House coming together on these critical matters.

I understand that there are issues on receivership treatment of the FHLBs, board structure, the funding of the regulator, and the SEC exemption for the Office of Finance. We will review and consider all of these matters.

I know that some in the room believe that legislation should grant the FHLBs the power to securitize the mortgages on their books while others don't agree. This is an issue that the Council needs to address and arrive at a consensus position. At this time that issue is not settled, and is not one I expect the legislation to address directly.

And it has been a long and sometimes winding road, but we have arrived at the destination, and I think it's entirely possible that we could be ready for markup as soon as May 18th or May 25th. What draws the parties together on this bill is increasing, and the differences seem to be diminishing.

We are in the process now of reaching out to the members of the Financial Services Committee on both sides of the aisle to move the Baker bill. So, I would say to the Home Loan Banks that it is important for you to give us your input now. I think it's important that the Home Loan Banks unite at this time, to speak with voice, and to support the package that we hope and intend to move later this month.

I think our Members will be looking to the Council of Home Loan Banks for opinions on the legislation, we certainly welcome your input and we seek your support as we prepare for what I believe will be a successful markup in the Financial Services Committee.

###